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TREASURY FOR SCHMERIN, DEPARTNEMT FOR EUR/SCE, EEB/IFD/OMA
(FREUDENWALD)

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TAGS: [ECON](#) [EFIN](#) [EAID](#) [BK](#)

SUBJECT: BOSNIA: IMF DEAL BACK ON

REF: A. SARAJEVO 589

[B](#). SARAJEVO 666

[C](#). SARAJEVO 744

[1](#)1. Summary. The IMF governing board meeting to approve the standby arrangement for Bosnia has been rescheduled for July 8, following Bosnia's fulfillment of the two outstanding conditions: the adoption of a comprehensive budget framework by the National Fiscal Council, and an agreement by the Federation to cut total social benefits and public salaries by 10%, thus meeting IMF budget requirements. The board meeting had originally been postponed following Federation capitulation to war veterans groups who protested any cut in their benefits. At a June 29 meeting with war veterans organizations, Federation PM Mustafa Mujezinovic discussed plans to revise the number of social beneficiaries in order to bring about the required budget cuts and permit the governing board to approve disbursement of the first tranche of funds. While the IMF may be satisfied for now, we still question whether the Federation can deliver the desired results by the time the arrangement is reviewed later this fall. If not, the second tranche of IMF funding could be delayed. End Summary.

[1](#)2. The local IMF representative reported on June 30 that Bosnia has satisfied all IMF conditions, and therefore the postponed governing board meeting to approve the IMF standby arrangement has been rescheduled for July 8. If the board approves, which is likely, the first tranche of approximately \$288 million will be available within days. The second tranche of approximately \$140 million will be made available if Bosnia passes the first review, to take place late this fall.

//Comprehensive Budget Framework//

[1](#)3. The National Fiscal Council (NFC) this week adopted a comprehensive budget framework despite the reservations of State Finance Minister Vrankic. Vrankic complained in a letter to the Embassy that the document does not provide enough details on revenues and fiscal goals for either BiH as a whole or for each separate government level. It also provides insufficient financing for BiH state-level institutions. Other members of the NFC argued that such details can be worked out later, and pushed through adoption of the document to satisfy the IMF and obtain the first tranche of funding.

//Federation Budget Cuts//

[1](#)4. Newly-appointed Federation PM Mujezinovic met with representatives from war veterans organizations on June 29. Mujezinovic announced immediate measures to revise down the number of individuals receiving benefits in order to bring the Federation budget down to levels acceptable to the IMF.

The first target will be the 25,000 recipients of war veterans benefits who were added to the rolls following a 2004 increase in war veterans benefits. Their benefits will be frozen immediately until it can be verified that they did not obtain them fraudulently. This would be a remarkable first step in cutting expenditures, but one that will likely provoke a repeat of the June 18 demonstrations. The PM also hinted that he would cancel benefits to specially decorated war heroes (some 5300 individuals), based on a World Bank suggestion. Other cost-cutting measures included allocating 2-3 million KM in Federation Development Bank funds for demobilized unemployed veterans to finance business start-ups, allowing them to be removed from the benefit rolls. Also present at the meeting was Bosniak member of the presidency Haris Silajdzic (SBiH), which may signal broader political support for the PM's plans. Mujezinovic did not state the total projected savings from all these measures, which will most likely depend on the outcome of the revision, but he and the IMF are convinced that the measures will represent a 10% cut in benefits (as required to meet IMF conditions).

//Comment//

15. While the IMF may be satisfied for now, we question whether the Federation PM will actually be able to implement his intentions which will require approval by Parliament and acceptance by veterans groups who have a tradition of responding to any threat of cuts with demonstrations. If the Federation cannot deliver the desired results, the second tranche of IMF funding could be delayed.

ENGLISH